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FM AMEMBASSY PARIS  
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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 PARIS 000334

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E.O. 12958: N/A  
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SUBJECT: FRANCE: SUPPORT FOR AERONAUTICAL SECTOR

REF: A) State 10592 B) Paris 0287

¶1. (SBU) Summary: GOF and industry officials tell us that a decision on the nature and timing of any launch aid for the A350-XWB (REF A) would likely follow the outcome of the WTO dispute panel on Airbus subsidies. Separately, the GOF has made 5 billion euros in credit available for Airbus trade financing through four banks under its financial crisis response package. Airbus also appears to benefit indirectly from government-sponsored venture capital funds, training programs, business advisory services, and research and development programs aimed at bolstering France's aeronautical sector. End summary.

CRISIS JUSTIFIES SHORT-TERM EXPORT FINANCING  
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¶2. (SBU) On January 26, State Secretary for Foreign Trade, Anne-Marie Idrac, announced that large Airbus clients were unable to obtain bank financing, particularly USD financing, due to the financial crisis. She said the GOF could not let a temporary lack of liquidity threaten 30 billion euros in exports, the sector's workforce, and Airbus' capacity to compete with Boeing. To ensure deliveries for existing Airbus orders, the GOF is making 5 billion euros available to prime lenders Calyon, BNP, Societe Generale and Natixis. The GOF argues that banks' unwillingness to lend, despite GOF-backed credit guarantees, necessitated this action (REF B). Unlike U.S. ExIm Bank, GOF and EADS officials point out, French export credit agency COFACE does not have direct lending authority. Boeing France President Yves Galland told us the 5 billion euros will help Airbus get through a difficult economic environment that Boeing faces also, and suggested it would not give Airbus an unfair competitive advantage.

WAITING MODE FOR A350 LAUNCH AID  
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¶3. (SBU) EADS Senior VP for Strategic and Business Denis Verret told us recently that no decision has been made to grant GOF subsidies of any type to Airbus for financing research and development of the A350XWB. Any launch aid, he clarified, would take the form of a reimbursable loan. He implied that launch aid was under discussion among stakeholders, including Germany, but that discussion was only in its initial stages. He noted the general consensus was to wait for WTO dispute panel findings expected

later this year. Emmanuel Glimet, Staff Director for State Secretary of Foreign Trade Anne-Marie Idrac, expressed similar views in a mid-February meeting.

¶4. (SBU) Press reports and one Paris-based industry observer note that Airbus had budgeted for A350XWB development, but costs in 2008 were higher than expected and the company's lower cash reserves were insufficient to cover overruns. EADS executives announced January 13 in a press conference in Wales the company must curb investment expenses and re-orient the provisional 2008 cash surplus of 9 billion euros towards customer financing, as airlines seek alternative sources in a credit-squeezed market.

Pointing the Finger at Boeing  
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¶5. (SBU) EADS VP Verret bemoaned the fact that Airbus has "no Pentagon and no NASA" to finance its R and D. He claimed that the 787 Dreamliner was the direct result of USG funded programs in composites and would be the most heavily subsidized Boeing product to date.

OTHER LONGER TERM SUPPORT SOURCES  
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¶6. (U) The GOF, in collaboration with corporate partners, continues to use a host of financial and business advisory support channels to develop the

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aeronautic sector. In July 2005, state-controlled CDC Entreprises, EADS and Safran launched Aerofund (50 million euros) to consolidate and develop European aeronautical subcontracting. A venture capital fund targeting SMEs developing new technologies, Aerofund allows the GOF to work within European rules that make it hard to invest public funds directly in non-listed companies of "strategic" sectors. A variety of suppliers and sub-contractors on the A380 and A400 projects are beneficiaries of Aerofund I equity investments. In July 2008, Airbus, CDC, and Safran, announced the launch of Aerofund II (75 million euros). The fund provides capital and funding to help suppliers and start-ups innovate, grow and become industrial partners with Airbus.

¶7. (SBU) Aerofund II is part of a broader support plan for the aeronautic sector announced by Prime Minister Fillon in October 2007. The 345 million euro plan included reimbursable state loans to SMEs and assistance for training, innovation, market advisory services and production chain organization assistance, as well as an estimate of the tax benefits derived from the Sarkozy's R and D tax credit. PM Fillon also authorized government-sponsored investment and guaranty funds to promote SME growth and strategic alliances. The GOF's cluster policy aims to consolidate sector-specific know-how, commercial interests and educational institutions within particular regions. As part of the 2007 aeronautic industry plan, the GOF linked three aeronautical "competitive clusters" located in the Bordeaux-Toulouse aerospace valley. The GOF announced in 2008 it would invest a total of 1.5 billion euros available (over three years) to be divided among its 71 technology clusters, largely to help finance R&D efforts.

¶8. (SBU) In a Le Monde interview on February 20, EADS CEO Gallois said the creation of venture

capital and state support plans for key industries (aeronautic, aerospace, and defense) should be anchored in long-term EU policy. Gallois echoed GOF calls for a European Research and Development program and an expanded SME market for the aeronautic industries. Boeing France President Galland told us this is quite typical of Gallois who "shamelessly" takes every opportunity to prepare the terrain for possible future state or EU support programs.

#### STATE STRATEGIC FUND STEPS IN

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19. (SBU) To help the aeronautical sector survive the current economic downturn, the GOF announced in November 2008 that its Strategic Investment Fund (FSI), in partnership with Aerofunds I and II, would subscribe to a 17 percent capital increase in family-owned Daher Group for 80 million euros (REF B). The capital increase, finalized on March 4, will allow the family-based Daher to invest 445 million euros in the aeronautics sector over the next five years, according to media reports. In November 2008 Daher and EADS announced they had reached agreement for the former to acquire a 70 percent majority stake of Socata from EADS. The Daher-Socatra partnership will foster business aviation via joint projects, "particularly on the A350XWB", said EADS CEO Louis Gallois in a press release.

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